

VAKHTANG R. PARTSVANIYA, ALBERT A. ZARNADZE

STATE UNIVERSITY OF MANAGEMENT, MOSCOW

INSTITUTIONAL ORGANIZATION OF REGIONAL MANAGEMENT IN RUSSIA

ABSTRACT. The consequences of the social and economic reforms of the 1990's in Russia are analyzed. The advantages of forming and developing of complete economic systems are proven. The importance of the regional aspect in the functioning and development of the national economy is revealed. The theoretical and methodological basis of institutional organization of regional development in Russia is considered.

KEY WORDS: social and economic reforms, market economy, regional development, complete economic systems, regional complete economic systems, organizational forms of management, system crisis in the national economy.

Questions on the organization of the effective functioning of a national economy on the extensive economic and geographical space of the Russian Federation are nowadays of great interest to many among the scientific and ruling elite of the country's society. These questions have become problematic and especially acute since the disintegration of the Soviet Union, when companies, businesses, etc. of a uniform economic complex became isolated units within their separate territorial formations, lost their economic relations that had been forming over many decades and found themselves without state guardianship. As a result, the old mechanism of the centralized government quickly collapsed, but the new system, necessary for carrying out effective market transformations, is still in the formative stage. In these conditions the differentiation of economic and social development between Russian regions has been considerably amplified, and the social status of many citizens has significantly worsened.

The course of the sudden change in the political system was quite often accompanied by failures in the social and economic sphere, which for some years during the transition period led to the actual dismantling of separate industries and the decline of the entire national economy. One of its fundamental negative results has become the decomposition of the economy: there was an obvious rupture in the dynamics of the development of extraction and production industries; the defence industry was deprived of resources for adjustment to new communications and for the organization of interaction with other industries; the constructive interrelation in the activity of financial and industrial sectors has not been formed. As a consequence of such state of affairs, 'the slump in production, decrease in economic efficiency, and destruction of the country's industrial potential have no equal in the history of a peacetime economy' (1).

The difficulties connected with the transformation of the Russian economy into an economy with a functioning market mechanism have been caused, first of all, by the absence of a social and economic theory adequate for a transition period. The basic theoretical baggage of the reformers was based on the Western experience of the last few years and scientific thought generated in other conditions and with reference to other realities. The basic error of the ideologists of economic reforms, in our opinion, consists in the carrying out of large-scale economic transformations without taking into account the specificity of Russian society and the system of a national economy which represented a uniform interconnected complex of economic industries.

Objective analysis shows that an extremely irrational social and economic system has appeared in Russia; its functioning qualitatively differs from a normal market economy. Today a fact of the Russian reality is the rupture of the economic and spatial integrity of the country. For example, gross regional product per capita in the most and least developed regions from an economic point of view is approximately 60 times greater in the former; the difference in regional investments per capita – 200 times greater, the consumption level – 30 times higher, the rate of unemployment – 25 times lower etc. (2). The differences in similar indicators in the European Union countries are far lower. Therefore, the European Union countries have a much greater basis to be considered as a uniform country than the separate regions of the Russian Federation.

There are three main reasons for such differentiation in the regional development of Russia. First, the mechanism of market competition dividing regions by their competitive advantages has emerged, and it has revealed various levels of adaptability of the regions with different structures of economy and different mentalities of the population to the conditions of a market economy. Secondly, the regulatory role of the state has been weakened and it has resulted in the reduction of state investments in regional development, cancelling the

majority of regional economic and social government support payments. Thirdly, there was an actual inequality between various subjects of the Russian Federation in economic relations with the centre. “Russia holds the first place in the world with respect to the degree of interregional social and economic differentiation which has exceeded the one between the ‘golden billion’ countries and the most backward countries of the world” (3). Obviously, such a level of interregional differentiation is not the ‘heritage’ of a past epoch, but a sign of imperfection in the formation of market space and weaknesses in the mechanisms of its target regulation.

Thereupon, from our point of view, it is necessary to fill a huge theoretical gap in the national economic science to overcome the many negative consequences of the reforms and also some dangerous modern tendencies; an effective tool of real economic analysis is necessary. Such a tool, in our opinion, is the theory of integrity of the social and economic systems, which completely analyzes any processes and relationships in the social and economic life of a society.

The major advantage of this theory is its system maintenance, i.e. it considers any processes according to the principles of system development, which are based on the obvious fact of inclusiveness of this or that sphere in life of the whole society. Therefore, the theory asserts that research on the processes occurring in the economic life of a society, an estimation of the economic situation or prospects for the development of the country will remain unproductive while researchers neglect the problems within the system properties in a national economy.

From a system point of view, potential possibilities for overcoming the crisis in a national economy are already considered by methodologists in the field of formation and development of complete economic systems (CES), which are based on the practical application of the results from analysing the system properties of an economy at any level of the hierarchy of governance. Thus, “CES are economic systems focused on the realization of a set purpose and capable of carrying out the intensive expanded reproduction due to their own resources”(4). In such a system the set of parts, or subsystems, are functioning and differ and range from small enterprises to large industries of economy. The last, in turn, can also be CES, but within other hierarchies of national economic governance. The functional destination of each subsystem is the improvement of the quality of that complete system of which it is an organic part. It also important to continue the observance of subordination requirements, where infringement could lead to the destruction of the whole economic system.

CES is characterized by two types of system properties which are typical for similar systems of any kind. The first set of properties characterizes the degree of development of the potential of systems. The main ones are self-controllability, self-organization, self-planning, self-regulation, self-maintenance and self-

development. The second set of properties defines the relation of a CES to its environment. The main ones are: flexibility, adaptability, autonomy, hierarchy, efficiency, reliability, stability, compatibility and dynamism. It is particularly important to point out institutionalism as a system property of CES that is expressed in the formation and maintenance of the unity of macroeconomic and microeconomic interests. First of all, it indicates that the elements of expedient functioning have the prevailing value in CES. The spontaneous character of the market is giving way to the conscious attributes of a market economy, the mechanisms of contractual relations are emerging, and the system of contracts, agreements and other elements of interaction of managing subjects are developing.

Institutional property in the economic system has recently started to coincide with a wide range of problems that are analysed by economic science. For this reason the agreed opinion concerning the essence and maintenance of institutes has not yet been affirmed. However, it is accepted that they reduce uncertainty in a national economy and establish 'the rules of the game' and mechanisms of their realization which counterparts of social and economic relations observe to solve their own problems (5).

In CES, institutes reach a maximum level of realization of their special-purpose designation along with other functions, they are constantly reproduced and they strengthen the ability of companies and businesses to overcome common uncertainties which often arise in any kind of system. Thus, institutions are the set of forms and governance methods which form organizational, legal, economic, spiritual, social restrictions, and also rules, mechanisms and control levers with which companies and businesses raise the level of integrity of the economic system while solving their own problems.

Currently, the national economic development of Russia requires further institutional transformations in each of its subsystems. Moreover, along with legislative establishment of the rules and norms of regulation of intersubject and intrasubject relations, the question of the role of separate regions in the formation of an economic federal system and the characteristics of the institutional processes at the regional level are becoming particularly relevant.

Allocation of the role of the regional aspect in the functioning and development of the national economy is especially acute for Russia owing to the scale of its territorial space and a unique variety of conditions in various parts of the country. "The economy of Russia is not a monoobject but a multiregional organism functioning on the basis of vertical (the centre – regions) and horizontal (interregional) economic, social and political interactions" (3). In this context, seven federal districts were formed on the territory of Russia in 2000. They are led by plenipotentiaries of the President and have become an original institution for the strengthening of presidential

power. However, such reorganization of a state-territorial country demands, first of all, adequate social and economic maintenance which is absent today.

The research on the aforementioned problems with the conditions of implemented reforms is interesting considering the methodology of the formation of regional complete economic systems (RCES), which are an organic part of a national economy and represent a set of interconnected elements located within the limits of concrete territorial formation, focused on the attainment of a certain purpose and having the ability of intensive expanded reproduction due to their own financial, industrial, natural and human resources. This methodology assumes the creation of a complete set of regional economies providing a uniform economic space with the preservation of features of specializations in the economic complexes of regions.

Uniformity of a complete economic system does not contradict the ideas of federalism since it assumes the creation of a system of economic interactions and communications between regions. Such systems have an organic structure which provides general unity and internal variety. Social and economic communications are capable of 'fastening' all elements of the Russian Federation into a state system, connecting its institutions and providing a historical continuity of development.

At present, the management of an economic complex in Russia which includes more than 80 subjects of the Federation is carried out from the capital, which has a set of federal functions. It quite often overloads the operating system and reduces the efficiency of the accepted qualitative administrative decisions. It is recognized that a control system which has in its structure more than twenty operated objects does not seem to be effectively organized. It is convincingly proved by mathematical calculations and by practice. Therefore the formation of a limited quantity of spontaneous and self-reproduced complete systems in a national economy will lead to, first and foremost, flexibility and efficiency in the overall State management.

The formation of RCES can promote the development of integration processes both between regions and within them. On the one hand, such a system causes the development of internal communications increasing production efficiency. On the other hand, it develops external, interregional communications which give the chance of receiving an additional effect. In addition, integration of the subjects of the Russian Federation within the economic regions that have complete economic maintenance acts as a display of the natural and historical development of organizational forms of management. At the same time, the renewal of the integration tendency is not a 'reintegration' of the former economic relations existing in a uniform economic complex of the period of the 1980s. New interregional integration should be reached on the basis of market efficiency, and

then problems of social policy and geostrategic interests of the country should be considered.

Our research has revealed the following dynamics of the formation of organizational forms of management: functional differentiation of the objects – functional concentration of specialized production – integration of functionally concentrated specialized production – integration of functional spheres of activity – and system functionality of an economic complex of territorial formation.

The analysis of the development of organizational forms of management shows that the basis for such a difficult process includes the increase in production efficiency and the decrease in socially necessary expenses. The organizational forms of management based on modular and factory forms of the concentration of production are no longer popular. It is necessary to further concentrate capacities on the basis of their specialization within the limits of separate territorial formations.

Besides, organizational forms of management within RCES create real preconditions for deepening the integration processes between different industries. For instance, the electric power industry can be integrated with the coal industry which, in turn, can be integrated with the iron and steel industry. It is also possible to assume the integration of the enterprises of the military-industrial complex with mechanical engineering enterprises etc.

However from the economic efficiency point of view, not only vertical integration on a technological line of production is interesting, but also financial integration within the limits of the regions. The special forms of integration are interregional organizational formations without which the creation of a uniform economic complex is impossible. The basic source effect from production integration between regions is the universal time saving law, which is expressed in different forms by the increase in production efficiency. Along with the decrease in specific socially necessary expenses, territorial and organizational rapprochement of industrial systems becomes a powerful factor of economic growth.

The formation and development of RCES has the following advantages:

- Concentration of material, labour, financial and natural resources for the realization of integrated regional industrial-economic and investment programmes;
- Realization of large scientific and technical, environmental protection acts having social and economic value;
- Manoeuvring of financial and material resources in significant scales for the effective resolution of social and economic problems;
- Formation of local competitive advantages for emergence onto world markets by an association of local businesses within the interconnected industrial and marketing complexes;

- Formation of reserve funds in order to render operative financial help to RCES regions in the cases of infringements on the normal modes of functioning and development of the economic system;
- Development of effective financial attitudes among themselves, as well as with other regions and countries for the attraction of capital for new construction, modernization, reconstruction of equipment and expansion of production;
- Formation and development of effective transnational companies capable of generating large material and financial streams within a region and to direct them towards self-development and self-reproduction;
- Unloading of the central federal state bodies, releasing them from current operational work;
- Taking actions to perfect financial-credit and tax policies within their own regions.

RCES would provide the centre with reports on the integrated general economic indicators, tax revenues and volumes of interregional deliveries. Decision making responsibility for economic problems will be transferred from the centre to the regions, i.e. problems would be solved where they arise.

Thus, formation of RCES, which has many objective preconditions, will promote the improvement of the quality of Russian economic space, its economic competitiveness and the comfort level of the living environment.

At the same time it is necessary to point out that the formation of RCES is an extremely complicated process, its successful solution will demand the carrying out of a whole complex of comprehensive actions in order to perfect structural policy, pricing, investment and innovative activity, the development of the state forms of management, restoration of the economic communications and the realization of a uniform policy in various industries. However the effective solution to the aforementioned questions can play a vital role in overcoming the system crisis in the national economy of Russia.

NOTES

(1) Lvov, D. 2000: Economy of Russia free from monetarism stereotypes. *Voprosy Ekonomiki*, Moscow, No 2, pp. 90–106.

(2) Lvov, D. Reforms of the 1990s have broken off Russia, *Political Journal*, May 25th 2007.

(3) Granberg, A. 2004: *Social and economic space of Russia: transformation tendencies and prospects*. The cycle of public lectures Academicians of the Russian Academy of Sciences to students of the State University of Management, SUM, Moscow.

(4) Zarnadze, A. 2000: Research of the system properties in economy as the precondition of the overcoming of crisis, *Problems of the theory and practice of management*, No 1, pp. 72–79.

(5) North, D. 1997: *Institutions, institutional changes and economic performance*. Moscow.

REFERENCES

Granberg, A. 2006: *Basic of regional development*. Moscow

Granberg, A. 2004: Social and economic space of Russia: transformation tendencies and prospects, The cycle of public lectures Academicians of the Russian Academy of Sciences to students of the State University of Management, SUM, Moscow.

Lvov, D. 2005: *Introduction to the institutional economy*. Moscow.

Lvov, D. 2000: Economy of Russia free from monetarism stereotypes, *Voprosy Ekonomiki*, No 2, pp. 90–106.

Lvov, D. 2007: Reforms of the 1990s have broken off Russia, *Political Journal*, May, 25th 2007.

North, D. 1997: *Institutions, institutional changes and economic performance*. Moscow.

Zarnadze, A. 2000: Research of the system properties in economy as the precondition of the overcoming of crisis, *Problems of the theory and practice of management*, No 1, pp. 72–79.

CORRESPONDENCE TO:

Vakhtang R. Partsvaniya
Department of Institutional Economy
Institute of New Economy's Management Issues
State University of Management
109542, Ryazanskiy prospect, 99, Moscow, Russia
e-mail: vakhtang@inbox.ru, www.guu.ru

Albert A. Zarnadze
Department of Institutional Economy
Institute of New Economy's Management Issues
State University of Management
109542, Ryazanskiy prospect, 99, Moscow, Russia
e-mail: ieguu@mail.ru, www.guu.ru